

# CHAPTER

# 2

## AUDITED REPORTS IN THE MALAYSIAN PUBLIC SECTOR

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### 2.1 INTRODUCTION

Citizens are demanding that governments be made more accountable for what they achieve with taxpayers' money. Therefore, public sector auditing plays an important role in effective public sector governance. Generally, public sector auditing in Malaysia can be categorised into internal and external auditing. Established in the Malaysian Audit Act 1957, external public sector auditing is performed by the National Audit Department (NAD) under the authority of the Auditor General. As the head of the NAD, the Auditor General provides independent affirmation that the practices exercised by the government ministries and their related agencies are done in compliance with acts and regulations. An annual report of each ministry's financial reporting will be presented by the Auditor General so that any shortcomings can be scrutinised, and rectifying measures can be taken for improvement. This annual report is named *Laporan Ketua Audit Negara* (LKAN) or Auditor General Reports (AGR).

Despite the relevant laws and regulations to adhere to the Malaysian government's financial management mechanisms and operations, there were still cases of misuse of power, high wastage risks,

leakage, deception, power abuse, falsification, wrongdoing, graft, and corruption (Shariman et al., 2018). The issues of weaknesses and ineffectiveness in managing public sector projects are identified in audited reports in *The Star* on 29th October 2021 highlighting some total losses of RM620 million by the ministries (*The Star*, 2021). Hence, public sector auditing is imperative. It can be defined as a continuous and systematic examination, analysis, and evaluation of an organisation's financial records, operations, and administrative statements to determine whether they comply with the general principles of accounting, management policies, regulations, and procedures set by the Auditor General of Malaysia. Public sector auditing in Malaysia is to ensure, firstly, that the requirements of laws and regulations have been complied with. Secondly, to disclose factors or elements that do not lead to efficiency, effectiveness, and economics in relation to the accounting of the state, and lastly, to give an opinion on whether the financial statements show a true and reasonable statement of the position and accuracy of the records in accordance with the applicable auditing standards.

As stated in the Auditor General Report 2018 Series three, Auditor-General Datuk Nik Azman Nik Abdul Majid has warned against programmes or even projects that do not achieve the targeted outcome and impact. In addition, based on the Auditor General Dashboard, common audit recommendations have been frequently suggested; however, similar inefficiencies are still being identified, and the number of issues continues to rise. Ironically, there are still audit suggestions that take more than a couple of years to be executed (Dain & Rahmat, 2017). Reports from the Auditor General of Malaysia show that only 16 from 24 ministries were informed to achieve “excellent” performance when audited by the NAD in 2018. This study looked into three ministries which are the Ministry of Defence, the Ministry of Education, and the Ministry of Finance, as these ministries have recurring common issues in subsequent years.

Amid rising issues and ineffectiveness in the ministries' projects and programmes such as misappropriation and abuse of public money as well

as fraudulent activities and more, it is significant to examine whether public funds are properly accounted for. Hence, NAD must ensure the public sector financial management of ministries, departments, and agencies is upheld in accordance with the specified criteria, efficiently, effectively, and prudently aligned with the objective goals. Their duties and responsibilities are important as required by Articles 106 and 107 of the Federal Constitution and the Audit Act 1957 as they play a major role in ensuring public sector accountability. Therefore, the first objective of this study is to explore the performance of three ministries' projects and programmes implementation, and the second objective is to examine the recurring issues highlighted in the AGR.

This study contributes in many ways. Firstly, by providing information on the recurring issues regarding projects and programmes implemented by the ministries, the users of the AGR are aware about the real situation regarding the misuse, misappropriation, and waste that are recurring in the public sector. Secondly, the findings contribute to the government by highlighting the recurring issues in selected ministries that need to be addressed and improved by taking remedial measures. Finally, the study findings could be reference materials for relevant government agencies training and territory education, particularly in the integrity module. Having the public right over government reporting, the findings of this study could contribute to public critical awareness on the auditing issues in the AGR. The awareness, in turn could strengthen or recuperate public confidence.

This study is secondary data-based research. The data in this study were collected via online through online newspaper articles, journals, and official websites. The main data was extracted from the AGR published by the NAD. Firstly, the data collected were only from secondary sources and depended heavily on the AGR. Secondly, the period covered for financial performance analysis in this study is limited to four years due to the unavailability of data. Thirdly, this study only covers three ministries out of the 26 ministries, which are the Ministry of Defence (MinDef), the Ministry of Education (MOE) and the Ministry of Finance (MOF) due to time constraints and limited